

DOCUMENT NO.

NO CHANGE IN CLASS.

[ ] DECLASSIFIED

CLASS. CHANGED TO: TS S

NEXT REVIEW DATE:

AUTH: HR 70-2

DATE 12-11-74 REVIEWER: 372044

DRAFT

OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 19  
WEEK OF 18 JULY - 24 JULY 1948  
6 " - 12 "

## SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Japan's program to build steel vessels for foreign account stirs inquiry and protest (page 3). A new military exchange rate will be a stabilizing force in Japanese economy (page 4). The 29 major bills passed in the recent Diet session indicate the completion of SCAP's basic democratization program and it now appears probable that the Japanese government may be given increased political latitude (page 4).

The situation in Korea is rapidly approaching its long-awaited culmination with the imminent establishment of two competing "national" regimes. By 1 September there will exist a US- and UN-sponsored Republic of Korea in the South and a Soviet puppet Democratic Korean People's Republic in the North. This development will effectively remove the last possibility of the early unification of Korea by peaceful means (page 4).

In China the most likely prospect for the coming months is that actual power will pass from Nanking into the hands of regional leaders (page 7). During the past week the Nationalist Army has suffered considerable losses in large scale fighting in Honan province. In Manchuria, however, the long anticipated Communist offensive still has not materialized (page 5). The Chinese Communists, in a recent resolution of their Central Committee, have affirmed their solidarity with international Communism (page 5). Favorable comment in the Chinese press regarding US aid is balanced by a noticeable amount of hostile criticism, and a growing sentiment in favor of an early peace treaty with Japan (page 6).

## State Dept. declassification &amp; release instructions on file

NOTE: In succeeding sections of this Weekly, the following marginal notations are used:

- (1) Double asterisk (\*\*) -- placed at beginning and end of information based solely on "S/S distribution" series.
- (2) Single asterisk (\*) -- to flag item containing "S/S distribution" series.
- (3) "A", "B", or "C" -- importance, in B/FE's opinion, of the item, with "A" representing the most important ones.

~~SECRET~~

-2-

SUMMARY (continued)

The situation in Malaya is requiring a major British military effort (page 8).

The pending retirement of the Burmese Prime Minister is aggravating the political situation in Burma (page 9).

The Phibun Government in Siam is preparing for a political crisis which may reach a climax in late July or early August (page 9).

Dissident groups in the Philippines are adopting a "wait and see" attitude toward arms surrender (page 10). Appraisal of Quirino administration by US Embassy, Manila (page 12).

Coal mine and waterfront strikes are affecting Australian and New Zealand dollar earnings (page 10).

~~CONFIDENTIAL~~

~~SECRET~~

~~SECRET~~

-3-

## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

### GENERAL

#### Japan to build ships for export.

"B"

Japan is planning the construction of steel vessels for foreign account, some of which are over 6,000 gross tons. Negotiations and/or offers for such ship-building as of 26 June totalled as follows: Norway 33 ships, Denmark 6 ships, Philippines 3 ships, France 1 ship, US 39 ships. In addition inquiries have been received from Italy, Australia and Sweden. No vessels of 6,000 gross tons or over are being built for Japanese account, but the program has aroused the interest of the FEC and US industrial interests and evoked a protest from the UK. The UK claims that if permission be given to the Japanese to build ships for export at this time, particularly ships of this size, the discussions on Japanese shipbuilding capacity now proceeding in the FEC might be prejudiced.

Opposition to Japanese shipbuilding for export may be expected for two major reasons: (1) Security--the possibility that a future Japan free of foreign supervision could turn "excess" shipbuilding capacity to aggressive purposes and (2) Economic--desire by maritime nations such as the UK to have other nations use their shipping facilities and to be free of competition for their own ship-building for export.

~~SECRET~~

~~SECRET~~

-4-

JAPAN

New military exchange rate of 270 to 1. A new military conversion rate has been established which provides for a rate of 270 yen to the dollar as compared with a prior rate of 50 to 1. The new rate covers exchanges in transactions involving military personnel, missionary acquisitions, foreign business authorizations, and immigrant remittances.

"C"

The number of dollars which will become available to the Japanese economy as a result of the new conversion rate is not expected to be great. However, it will be a stabilizing force for the Japanese economy because (1) it is a step forward in the direction of making more realistic the dollar-yen exchange rate and (2) it should lessen the excursions by dollar holders into the blackmarket.

Japan's new democratic framework completed. The second national Japanese Diet which closed on 6 July saw the passage of 29 major bills which, a spokesman for SCAP estimated, enacted into law "all of the legislation essential to the full implementation of the basic concepts of the new constitution." Among other legislation these bills include: revised codes of civil and criminal procedure, the introduction of habeas corpus into Japanese jurisprudence, provision for the punishment of corrupt political practices, further decentralization of government through the Board of Education Bill, and an attempt to assure good government through a National Government Organization Law and the Administrative Management Authority Law.

"B"

The spokesman's statement appears to indicate that SCAP's basic legislation for "democratizing" Japan is virtually complete and presages increasing latitude for Japanese political initiative.

KOREA

The National Assembly now meeting in South Korea has adopted a constitution and is scheduled to announce the formation of the Republic of Korea around 1 August. At the same time, the hastily-convened Fifth Session of the North Korean People's Council, after denouncing US "unilateral" action in South Korea, has put into effect its own Soviet-model constitution and scheduled the holding of elections on 25 August for the establishment of a Democratic Korean People's Republic in which South Korea will have ostensible representation. This Soviet-inspired action is being accompanied by an intrigue intended to discredit the South Korean regime by restoring the electric power supply to South Korea in response to a carefully-timed future request by Kim Koo and Kim Kyu Sik, the two leading non-Communist opponents to the establishment of a national government in South Korea. Formation of the North Korean puppet regime will undoubtedly be followed by renewed Soviet pressure for the removal of all occupying forces before the US can have an opportunity to establish a native security force in South Korea adequate to protect it from aggression by the North Korean People's Army.

"A"

~~SECRET~~

~~SECRET~~

A comparatively large scale battle was fought last week on the east  
Henan plains, southeast of the provincial capital Kaifeng, with both sides  
claiming impressive victories. As yet no conclusive reports of the fighting  
 have been received, but the Nationalist spokesmen have admitted that one  
 Nationalist division was lost and several others badly beaten up. Extrava-  
 gant Nationalist claims of casualties inflicted upon the Communists are  
 very likely unfounded, and it is doubtful whether they have succeeded in  
 smashing Communist strength in Central China. However, the large Communist  
 concentration (which reached over 10 columns at the height of the fighting)  
 subsequently dispersed while diversionary efforts were undertaken by other  
 Communist forces in Hupeh near Hsiangyang and in the Huaiyin area of North  
 Kiangsu.

"B"

Continued Communist military inactivity in Manchuria may be the con-  
 sequence of a preoccupation with certain difficulties besetting their  
 military efforts. According to this interpretation the string of Communist  
 offensives in Manchuria has been halted by chronic shortages of weapons and  
 ammunition, transport problems which grow in intensity as the fighting shifts  
 further away from their main bases north of the Sungari River, food shortages  
 which may become more acute, and the lack of more accessible tactical targets.  
 The latter resulted from Communist occupation of all important Manchurian  
 cities except Mukden and Changchun, and may have led to a rift in the top  
 Communist command, some of whom hold that the present cost of their conquest  
 would be abortive while others hold that it is a prerequisite to any large  
 Communist movement into North China.

"A"

However, Communist agricultural production should be adequate, save in  
 recently fought over areas, and sufficient to avoid widespread want. Communist  
 control of the great percentage of China's operating railways plus indicated  
 intensive efforts in Manchuria toward the rehabilitation of newly acquired  
 lines, makes Communist logistic shortcomings somewhat less severe than the  
 Nationalists'. It is therefore estimated that the Communists can still  
 return to the offensive at a time of their own choosing. It is, moreover,  
 likely that their goals will remain the same: continued siege of the be-  
 leaguered Nationalist cities in Manchuria (although all-out assaults cannot  
 be completely discounted) with concurrent shifting of elements of their Man-  
 churian strength into Mu Tso-yi's North China area. Nationalist Manchurian  
 capabilities are largely defensive, and further threatened by severe economic  
 pressures within their islands of control. While the Communists can take  
 Manchuria on a timetable of their own devising, the final conquest still  
 seems distant.

Chinese Communist solidarity with international Communism under Soviet  
leadership has been vigorously professed in a resolution of 11 July of the

"B"

~~SECRET~~

~~SECRET~~

-6-

Chinese Party's Central Committee assailing Marshal Tito for "rejecting the fraternal criticisms of the Communist Party of the Soviet Union". A recent Cominform directive to Communist parties throughout the world, including China, to model themselves on the Soviet Communist Party may have served to prod the Chinese Party to take this action. Moreover the fact that the Cominform statement on this subject omits China from the praise bestowed on the Communist Parties in France and Italy suggests that the Soviet Party is displeased with, and desires to issue a warning to the Chinese Communist Party because of its independent tendencies. It is noteworthy that Chinese Communist pronouncements during recent months which have indicated a moderation in policy, have come entirely from prominent leaders within areas of China proper, while there is no evidence that the Communists in Manchuria have taken parallel action. Some quarters have been disposed to regard this as evidence of a schism within the Party. However, in view of the recent resolution it is unlikely that there exists a split of serious proportions, or that the Chinese Communist Party will allow an important policy dispute to develop at this time inasmuch as such dissension would inevitably endanger present Communist ascendancy in the civil war.

British special privileges in Tibet have been under fire from the Mongol-Tibetan Commission at Nanking which has requested the Chinese Foreign Office to negotiate for their abrogation. The special position of the United Kingdom stems from the Anglo-Chinese Convention of 1906. With India's independence, the British Mission in Lhasa has become the Indian Mission there, but the personnel, which is largely British, remains unchanged. "C"

Chinese popular demands for an early Japanese peace treaty have been intensified by the recent criticism of the US policy toward Japan. These demands stem not only from the Chinese fear that a powerful Japan is being restored but also from China's desire to play a determining role in Japan's future, now being directed exclusively by the US. The Legislative and Control Yuans have supported proposals urging an early peace conference. The Vice Minister of Foreign Affairs, in answering the Control Yuan's proposals, reviewed negotiations for a preliminary parley and absolved China from responsibility for delay. He blamed disagreements among the Allied nations for the impasse and reiterated China's proposals for a compromise whereby an eleven nation conference, with the Big Four retaining the veto, would decide the peace settlement. "B"

Chinese press reaction to the Sino-US bilateral aid agreement signed 3 July, while generally favorable, contained the inference in some papers that the aid was niggardly and thus insufficient to be of any great value. Most papers commented that effectiveness of the aid would be largely determined by China's ability to help herself, while some papers implied that US had imposed hard terms for its own benefits. At the same time the press reacted very favorably to the Dewey nomination, expecting larger US aid to China to result if he is elected. Outside the reception in the press, which is largely government-controlled, there is a noticeable and growing resent- "B"

~~SECRET~~

~~SECRET~~

-7-

ment against the US aid program among considerable numbers of Chinese on the grounds that such aid merely prolongs the civil war and postpones the fall of the National Government which they regard as hopelessly corrupt and ineffectual.

The present National Government cannot survive for a long period in the "A" opinion of increasing numbers of Nationalist officials. In view of the deteriorating situation, Marshall Li Chi-shen and his dissident group in Hong Kong are making active preparations to establish, during the next few months, a rival "provisional government", and in these efforts are seeking the assistance of US officials in China. He is reportedly of the view that a change in administration in Washington will result in increased aid to Nanking, strengthening the position of Chiang Kai-shek, and therefore he is eager to establish his "government" prior to the US November elections. It is questionable, however, whether Marshall Li either has secured the allegiance of any important leaders in Nationalist China or has sufficient military backing to insure the success of his movement. The most likely prospect for the coming months is an acceleration of trends toward the establishment of regional regimes and associations, with the actual power in Nationalist China passing from Nanking into the hands of regional civil and military leaders.

Currency/Prices. Exchange and commodity markets experienced another inflationary upswing during the past weekend. Although the rise was substantial and wide-spread it was not as sharp as that recorded on 26 June. The US dollar was selling for as high as CN \$6.2 million on the Shanghai black-market on 12 July; the price of rice reached a new high of CN \$28 million per picul. This new spurt was believed caused by increased accumulation of idle capital in Shanghai and other large cities. Merchants are becoming reluctant to dispose of goods in exchange for CN Dollars and there is an increasing tendency toward barter. "B"

The Shanghai Market:	<u>US \$ Exchange (Selling Rate)</u>		<u>Wholesale Price of Rice</u>
	<u>Official "open"</u>	<u>Blackmarket</u>	<u>per 172 lb picul</u>
This week (9 Jul 48)	CN \$ 480,000	CN \$ 4,400,000	CN \$ 24,000,000
Week ago (2 Jul 48)	480,000	4,000,000	19,500,000
Month ago (9 June 48)	480,000	1,575,000	7,700,000
Year ago (9 Jul 47)	12,000	44,000	420,000

Foreign Trade - Exports. The China Export-Import Board announces that China's exports for June increased to US \$20 million, as compared with the US \$16 to 17 million level for the three previous months. The Board attributed this increase to the new foreign exchange link system, whereby exporters are able to augment their returns by selling exchange surrender certificates to importers. This improvement in exports, although not substantial, is significant in view of China's depleted foreign exchange funds. "C"

~~SECRET~~

~~SECRET~~

-8-

MALAYA

Situation in Malaya requiring major British military effort. Although "A" the British will probably require reinforcements from the UK in order to carry out their major campaign against Communist-directed terrorism in Malaya, a direct request for US assistance is unlikely unless the situation seriously deteriorates.

The local Communists, predominantly Chinese, are not capable of overthrowing the existing government as some British authorities have claimed they are trying to do, although it is undoubtedly their ultimate objective. It appears that the Communists have resorted to violence because they felt that the British had decided to suppress, or severely restrict their activities, therefore leaving them no alternative but to resort to an armed uprising. The Communists' more limited objectives, for which they are well-equipped, are: (1) to embarrass and burden the British with the necessity of undertaking extensive military operations; (2) to reduce or eliminate indigenous political opposition by direct action or intimidation; and (3) to jeopardize tin and rubber production. [REDACTED]

to achieve these ends the 10-15,000 member Malayan Communist Party controls approximately 1,000 armed men organized into "killer bands" operating in the more populated areas, and some 5,000 well-armed and supplied experienced guerrillas in the jungles. The Communists also have the support of members of various political and labor organizations which they dominated or influenced before going underground.

The British have the equivalent of one well-trained division made up of British, Gurka, and Malay troops with limited Air and Naval support, augmented by the police force of approximately 12,500 men. During the operations the Malay population will, by and large, remain passive, while Kuomintang and independent Chinese will probably support the British, or at least maintain an attitude of tacit non-interference. The success of the campaign depends upon the British ability: (1) to clear the vital areas of Malaya of terrorists by driving them into the hinterland, which [REDACTED] will take six months; and (2) to prevent the infiltration of reinforcements and smuggling of supplies to the terrorists over the Siamese border, and along the east coast, which will be a difficult task. [REDACTED] the final eradication of terrorist activities will take two or three years, during which time the mines, plantations and lines of communication will have to be protected against spot raids and harassment.

Because of deep-seated political and economic grievances unrest in Malaya can be expected to continue, regardless of the outcome of the current campaign. Nevertheless, swift initial success by British forces, which is a distinct possibility, will result in the bottling up of most of the belligerents in the wild jungle areas, and will remove most of the immediate threat to the production of tin and rubber.

~~SECRET~~



~~SECRET~~

-9-

BURMA

Pending retirement of Prime Minister aggravates political situation. "B"

Although there are no indications that Prime Minister Thakin Nu has altered his decision to retire on 20 July, a postponement is a distinct possibility in view of the growing weakness of the Anti-Fascist Peoples' Freedom League (AFPFL), the government party. Apparently as a result of continued disagreement over Thakin Nu's leftist unity program and the government's military campaign against the insurrectionary Communists, the Peoples' Volunteer Organization (PVO) and the Socialist Party, the two major components of the AFPFL, have split. This in turn has led to rivalries for the post of Prime Minister which appears to be precipitating the complete disintegration of the AFPFL even though Thakin Nu may at the last minute be prevailed upon to remain as Prime Minister. The resulting political factionalism will cause further unrest among ethnic minority groups, particularly the Karens, and will create conditions favorable to the re-entry of the Communists into the government. Furthermore, the sustained political crisis is jeopardizing the production of rice upon which Burma's economy is based. In view of the recent trends which bring Burma close to political chaos marked by widespread violence, the local Communists, particularly if a major trend in world affairs favorable to the USSR develops in the near future, could emerge as the strongest force in Burma.

SIAM

Phibul concern indicates seriousness of imminent crisis. "B"

Recent developments in Siam indicate that another crisis and shift in power is probable and may possibly occur during late July or early August. Political complications arising from the death of the late King Ananda has provided a key issue. Since the death of Ananda in 1946, Elder Statesman Nai Pridi, forced to leave Siam after the November 1947 coup, has been accused of being implicated in, or at least of shielding persons involved in the assassination. Recently the Phibul Government issued a warrant for the arrest of Nai Pridi who at last report was in Shanghai. Pridi may return to Siam before he is officially called to the witness stand, for, in the light of present inconclusive evidence, it may be assumed that he cannot legally be convicted. If, however, "new" evidence based on recent investigations is introduced by the Government and Pridi should be in danger of conviction, it is possible that the more radical of his "republican-minded" supporters may react violently, and indulge in terrorist activities.

In addition to the issue of the King's death, increasing dissatisfaction developing within the military as a result of the profiteering activities of Phibul's chief supporter, Deputy Army Commander Kach, may lead to a showdown between Phibul and anti-Kach elements and pro-Pridi supporters. Recent rumors of a full-scale coup d'etat against the Phibul regime, may be an attempt by

~~SECRET~~

~~SECRET~~SIAM (continued)

the anti-Phibul groups to effect a compromise with the Phibul regime and at the same time secure a more accurate assessment of Siamese as well as US and UK attitudes towards a possible overthrow of the Phibul Government. Late reports indicate that Phibul has called out troops to establish road-blocks and to guard his residence against possible attack.

PHILIPPINES

Dissidents adopt "wait and see" attitude toward arms surrender. Some "B" elements of the dissident Hukbalahap and National Peasants' Union now seem to have adopted a cautious attitude toward surrendering their arms and disbanding in return for recently granted amnesty. This attitude derives in part from the Government's failure to indicate whether surrendered arms are to be confiscated or merely registered and returned to their owners. There is also indication that many dissidents are awaiting concrete Government action to remedy agrarian abuses, as promised, before accepting amnesty. Moreover, a recent press report naming high-ranking Huks among the "hold-outs" may indicate that Huk leader Taruc, who was recently seated in Congress, cannot wield the same effective leadership he was able to exercise in the field. In any case, because of the slowness with which implementation of amnesty is proceeding, President Quirino will probably extend the period of grace which is now due to expire 25 July.

Nevertheless, the mere act of granting amnesty to the dissidents seems to have a salutary effect throughout the disturbed provinces of central Luzon. Recent reports indicate that there has been a sharp decrease in violence in the area since amnesty was proclaimed on 21 June. One provincial governor has stated that peasants were flocking back to rice fields which have been about 40% idle for the past two years.

AUSTRALIA

Coal mine strikes affect production and dollar earnings. Although "C" the threatened one-day strike in all of the New South Wales coal fields has been averted, 12 mines are still idle and coal reserves in most Australian states are non-existent. The stoppages which resulted from a dispute over claims for higher wages by men working with machine cut coal in 5 New South Wales mines have called for drastic cuts in train services, gas, and electricity. A Singapore report alleged that they were connected with recent disturbances in Malaya but this was emphatically denied by the Communist president of the Miners Federation. Nevertheless the stoppages have aggravated domestic shortages of steel, building materials, and other essential goods and have thwarted efforts to increase production for export as a means of earning dollars.

NEW ZEALAND

Shipping strike affects dollar earnings. A paralysis of Auckland's "C" shipping facilities with consequent disruption of New Zealand trade has resulted from dissension between the Waterside Workers and the Waterfront Industry Commission over the safety precautions on the Australian wheat ship, Mountpark.

~~SECRET~~

~~SECRET~~

-11-

NEW ZEALAND (continued)

The most recent development involved a US bound freighter which was forced to leave without cargo, representing a half million dollar loss in New Zealand for the Empire dollar pool.

~~SECRET~~

~~SECRET~~

-12-

## SECTION III. DIGEST OF IMPORTANT STUDIES AND ESTIMATES

Elpidio Quirino and the Presidency: An Appraisal

Entirely contrary to most predictions, Elpidio Quirino, President of the Philippines since the death of President Roxas on 15 April 1948, has made a surprising and highly commendable beginning as Chief Executive. When Roxas died, Quirino, then Vice-President and Secretary of Foreign Affairs, was generally considered to be in a state of political decline. The President had increasingly ignored him in top state deliberations, and Liberal Party leaders were openly considering replacing him as Vice-Presidential candidate in the 1949 elections. When Quirino was elevated to the Presidency, many Filipinos frankly questioned his ability and qualifications. Although Congressional leaders pledged their allegiance to him, and most of his critics jumped on the Quirino bandwagon, there was much speculation as to how complete their allegiance would be. "B"

Fifty days after assuming office, Quirino has made progress which few of his friends would have conceded as possible at the time of his inauguration. Members of the former President's cabinet are still in office, but Quirino has their resignations and can act upon them whenever he desires.<sup>1</sup> Meanwhile, he has strengthened relations with the cabinet by announcing that he plans to delegate more autonomy to individual departments. Immediately upon taking office, Quirino cemented a close alliance with Senate and House leaders, and the Congress, instead of challenging the President as had been feared, entered upon a period of close and cordial relations with the Executive Office. Quirino had stated repeatedly that he is pledged to place the interests of the country above those of the party and is believed to be sincere. However, at the same time he has shown a realistic awareness of the need for tightening Liberal Party lines. He is reported to have assured Liberal leaders that in making future appointments he will bear in mind the interests of the party.

Quirino seems to have achieved much initial popularity with the people. They appreciate his efforts to solve the law and order problem,<sup>2</sup> his attack upon graft and corruption within the Government, his pledge of close relations with the United States, his direct visits with the people, and the possible passage of the Philippine Veterans' Bill in the US Congress.<sup>2</sup> The

1. B/FE Comment: This is still the situation, almost three months after Quirino assumed the Presidency.
2. B/FE Comment: Since this dispatch was written, Quirino has issued and Congress has approved a proclamation granting amnesty to the dissident Hukbalahap and its political affiliate, the National Peasants Union. The Philippine Veterans Bill as finally enacted by the US Congress was signed recently by President Truman assuring hospitalization benefits to Philippine veterans. The Philippine press has given Quirino ample credit for his work on both problems.

~~SECRET~~

~~SECRET~~

~~CONFIDENTIAL~~

-13-

main press criticisms of the President thus far are that he is lazy, a poor administrator, and lacking in real understanding of the duties of the Presidency. Although some news columnists are unfriendly to him, most seem to be giving Quirino an opportunity to prove himself in office.

With the 1949 presidential elections only a little more than a year away, there is much jockeying for position. President Quirino's health is one of the most important considerations with respect to his re-election. Many politicians feel he is unequal to serving another full term. Other possible Liberal candidates are Carlos P. Romulo and the Senate President Avelino. Among the opposition, Jose P. Laurel is still the most frequently named.

Epidio Quirino and the Presidency: An Appraisal  
US Embassy, Manila, Dispatch No. 551  
5 June 1948, CONFIDENTIAL

~~CONFIDENTIAL~~

~~SECRET~~